

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
CLERK**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ELLIOTT COUNTY CLERK

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the Elliott County Clerk's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Revenues decreased by \$12,216 from the prior year and expenditures decreased by \$6,699, resulting in a deficit of \$12,515 for calendar year 2005.

Report Comments:

- County Clerk Reeda Ison Has A Deficit Of \$12,515 In Her 2005 Fee Account
- County Clerk Reeda Ison Has A Cumulative Deficit Of \$28,629 Owed To Taxing Districts For 2001, 2002, And 2004
- The County Clerk Had \$10,292 Of Checks Payable To Taxing Districts Returned From Bank Due To Insufficient Funds In Her 2005 Bank Account
- The County Clerk Had \$3,797 In Disallowed Expenditures
- The County Clerk Paid Herself \$3,194 Of Training Incentive, But Should Request It From Fiscal Court
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Was Delinquent In Submitting Quarterly Financial Reports To The Governor's Office For Local Development By Up To Four Months
- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS	8
COMMENTS AND RECOMMENDATIONS	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	17



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Pennington, Elliott County Judge/Executive
Honorable Reeda S. Ison, Elliott County Clerk
Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Elliott County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 7, 2006 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Charles Pennington, Elliott County Judge/Executive
Honorable Reeda S. Ison, Elliott County Clerk
Members of the Elliott County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- County Clerk Reeda Ison Has A Deficit Of \$12,515 In Her 2005 Fee Account
- County Clerk Reeda Ison Has A Cumulative Deficit Of \$28,629 Owed To Taxing Districts For 2001, 2002, And 2004
- The County Clerk Had \$10,292 Of Checks Payable To Taxing Districts Returned From Bank Due To Insufficient Funds In Her 2005 Bank Account
- The County Clerk Had \$3,797 In Disallowed Expenditures
- The County Clerk Paid Herself \$3,194 Of Training Incentive, But Should Request It From Fiscal Court
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Was Delinquent In Submitting Quarterly Financial Reports To The Governor's Office For Local Development By Up To Four Months
- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Elliott County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 7, 2006

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers \$ 136,979

Usage Tax 178,607

Tangible Personal Property Tax 332,567

Other-

Marriage Licenses 2,139

Deed Transfer Tax 7,595

Delinquent Tax 33,459 \$ 691,346

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts 4,443

Real Estate Mortgages 5,231

Chattel Mortgages and Financing Statements 20,391

Powers of Attorney 218

All Other Recordings 6,162

Copywork 874 37,319

Other:

Vehicle Title Registration 905

Miscellaneous 5,276

Other Deposit 38 6,219

Interest Earned

76

Total Revenues

734,960

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	106,586	
Usage Tax		172,712	
Tangible Personal Property Tax		124,689	
Licenses, Taxes, and Fees-			
Delinquent Tax		3,814	
Legal Process Tax		4,799	
		<hr/>	\$ 412,600

Payments to Fiscal Court:

Tangible Personal Property Tax	41,206	
Delinquent Tax	3,812	
Deed Transfer Tax	7,812	52,830
	<hr/>	

Payments to Other Districts:

Tangible Personal Property Tax	153,398	
Delinquent Tax	15,850	169,248
	<hr/>	

Payments to Sheriff

2,042

Payments to County Attorney

4,272

Operating Expenditures:

Personnel Services-

Deputies' Salaries	20,750
Part-Time Salaries	3,291
Other Payroll Expenditures	648

Materials and Supplies-

Office Supplies	1,184
-----------------	-------

Other Charges-

Conventions and Travel	1,141
Dues	450
Postage	1,465
Telephone	1,474
Miscellaneous	3,842
Refunds	464
Legal Service	246
Maintenance and Repairs	318
Insurance	483

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Debt Service:

Copier Rental	\$ 1,653	\$ 37,409
---------------	----------	-----------

Total Expenditures		\$ 678,401
--------------------	--	------------

Net Revenues		56,559
--------------	--	--------

Less: Statutory Maximum		<u>62,280</u>
-------------------------	--	---------------

Excess Fees		(5,721)
-------------	--	---------

Less: Expense Allowance	3,600	
-------------------------	-------	--

Training Incentive Benefit	<u>3,194</u>	<u>6,794</u>
----------------------------	--------------	--------------

Deficit for Calendar Year 2005		<u><u>\$ (12,515)</u></u>
--------------------------------	--	---------------------------

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a depository institution failure, the county clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease

The office of the County Clerk was committed to a lease agreement with Xerox for a copier. The agreement requires a monthly payment of \$135 for 60 months to be completed in June 2006. The total remaining balance of the agreement was \$810 as of December 31, 2005.

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2005

Assets

Cash in Bank	\$ 14,176
Deposits in Transit	<u>4,010</u>
Total Assets	18,186

Liabilities

Paid Obligations:

Outstanding Checks	\$ 18,186
--------------------	-----------

Unpaid Obligations:

State Treasurer-

Motor Vehicle Licenses	\$ 1,651	
Withholdings	<u>648</u>	\$ 2,299

Elliott County Deed Transfer Tax	572
----------------------------------	-----

School-

Tangible Personal Property Tax	7,735	
Delinquent Tax	<u>353</u>	8,088

Ambulance Delinquent Tax	1,369
--------------------------	-------

County Attorney Delinquent Tax	<u>187</u>
--------------------------------	------------

Total Unpaid Obligations	<u>12,515</u>
--------------------------	---------------

Total Liabilities	<u>30,701</u>
-------------------	---------------

Total Fund Deficit as of December 31, 2005	<u><u>\$ (12,515)</u></u>
--	---------------------------

COMMENTS AND RECOMMENDATIONS

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

County Clerk Reeda Ison Has A Deficit of \$12,515 In Her 2005 Fee Account

The County Clerk has a deficit of \$12,515 in her 2005 fee account. Taxing districts are due a total of \$10,216 from the collection of tangible personal property taxes, delinquent taxes and deed transfer tax. In addition the Kentucky State Treasurer is due \$1,651 from the collection of motor vehicle license as well as \$648 for payroll withholding taxes. We recommend that the County Clerk eliminate this deficit by depositing personal funds into her 2005 fee account. In addition, the County Attorney, if necessary, should take action to secure payment so that these obligations to the appropriate taxing districts may be made and notify the Governor's Office for Local Development (GOLD) when these payments have been made.

County Clerk's Response:

An honest mistake was made when we changed banks in our bookkeeping. We did not find out till later what had happened. The Fiscal Court nor Local Government are trying to help us. I am sorry to say, there's no help from the Co. Attorney.

County Clerk Reeda Ison Has A Cumulative Deficit Of \$28,629 Owed To Taxing Districts For 2001, 2002, And 2004

The County Clerk has a cumulative deficit totaling \$28,629 from her 2001, 2002 and 2004 fee accounts. This matter has been a repeated finding since 2001. No payments have been made toward 2001 and 2004 deficits, leaving them at \$10,573 and \$6,998, respectively. However, \$1,137 was paid toward the 2002 deficit of \$12,195, leaving the taxing districts due \$11,058 from the collection of tangible personal property and delinquent taxes. We recommend that the County Attorney take necessary action to secure payment by the County Clerk so that these obligations to the Fiscal Court and taxing districts may be made and notify GOLD when these payments have been made. The County Clerk and the County Judge/Executive, in response to this comment for the year ended December 31, 2004, disagreed over the reason for the deficits leaving the matter unresolved.

County Clerk's Response:

There have been no changes. Judge/Executive Pennington refuses to sign or go by the Statute of Laws on helping the Clerk's office. He will not sign for KACo to refund on the amount of stolen money.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The County Clerk Had \$10,292 Of Checks Payable To Taxing Districts Returned From Bank Due To Insufficient Funds In Her 2005 Bank Account

The County Clerk wrote checks totaling \$10,292 that was subsequently returned from the bank due to insufficient funds in her 2005 bank account. The checks were written to taxing districts for taxes collected on their behalf and for state payroll withholdings. As of August 7, 2006, the County Clerk has not deposited sufficient funds in her account in order for these checks to clear the bank account. KRS 134.815(1) states, "the county clerk shall, by the tenth of each month . . . pay to the state, county, city, urban-county government, school and special taxing districts all ad valorem taxes on motor vehicles collected by him for the preceding month . . ." We recommend the County Attorney take appropriate action to ensure the payment of these obligations.

County Clerk's Response:

There are no funds to deposit. We have told the Judge/Executive Charles Pennington about help.

The County Clerk Had \$3,797 In Disallowed Expenditures

Disallowed expenditures totaling \$3,797 were noted during the course of the audit. The County Clerk paid herself \$3,600 for her expense allowance for the calendar year while owing taxes she collected to the taxing districts. KRS 64.017(2) states, "if the amount of fees collected will not fund the full amount of the annual expense allowance, then the county clerk shall receive the excess of such fees after all other lawful expenses and salaries have been paid." At the end of 2005 the County Clerk had unpaid delinquent taxes, tangible personal property taxes, and employee payroll withholdings. In addition, bank charges of \$197 were incurred from writing checks without sufficient bank funds. We recommend the county clerk not pay her expense allowance in the future until the fee account pays for all other expenses. We further recommend the County Clerk reimburse the 2005 fee account in the amount of \$3,797.

County Clerk's Response:

It had been my understanding that we were to pay ourselves each month an expense check. I did not wait nor was I told to wait until Dec. to pay myself. If so, I would not get paid at all.

Auditor's Reply:

The expense allowance, unlike the stationary maximum salary, is not a required monthly payment. Instead, it is to be paid only if the County Clerk's fees are sufficient to support it after all other lawful expenses and salaries of the office have been paid. In the office of the Elliott County Clerk, these fees were not sufficient, so the expense allowance should not have been paid.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The County Clerk Paid Herself \$3,194 Of Training Incentive, But Should Request It From Fiscal Court

The County Clerk earned \$3,194 in training incentive for 2005. KRS 64.5275(6) requires the County Clerk to be paid an annual incentive per calendar year for each training unit completed up to a maximum of four incentive payments. The County Clerk received \$3,194 from the 2005 fee account for this training incentive payment. However, due to the deficit for 2005, taxes collected should have been used to pay taxing districts amounts owed to them and the County Clerk should have requested her training incentive from the fiscal court. We recommend in the future, the County Clerk not pay her training incentive until the fee account pays for all other expenses. If there are no fees remaining in the account, she should request payment for her training incentive from Fiscal Court.

County Clerk's Response:

The Judge/Executive Charles Pennington will not approve thru Fiscal Court to pay me nor my office any money for anything.

The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court

The County Clerk did not present her annual settlement to the fiscal court. KRS 64.152 requires the County Clerk to present an annual settlement and to settle excess fees with the fiscal court by March 15 of each year. We recommend the County Clerk present her annual settlement to the fiscal court and pay excess fees by March 15 each year.

County Clerk's Response:

There have been no settlements due to the reports have not been completed due to lack of money.

The County Clerk Was Delinquent In Submitting Quarterly Financial Reports To The Governor's Office For Local Development (GOLD) By Up To Four Months

The County Clerk was consistently late sending her quarterly financial reports to GOLD. GOLD requires Quarterly Financial Reports by the 30th day following the close of each quarter. The County Clerk is not following this policy. One quarterly report was 4 months late. We recommend the County Clerk submit her quarterly financial reports within 30 days following the close of each quarter in the future.

County Clerk's Response:

I did not realize that I had been this late. I knew I was late due to illness of my bookkeeper.

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2005
 (Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The County Clerk has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. We recommend that the following compensating controls be implemented to offset this internal control weakness.

- The County Clerk should recount and deposit cash daily.
- The County Clerk should perform surprise cash counts.
- The County Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The County Clerk could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The County Clerk should periodically agree daily AVIS computer totals to receipts for usage tax, license fees, and tangible personal property taxes.
- The County Clerk should reconcile the bank balance to the general ledger.
- The County Clerk should monitor and supervise the assigned responsibilities of her staff.

County Clerk's Response:

None.

PRIOR YEAR:

- The County Clerk Had A Cumulative Deficit Owed To Taxing Districts
- The County Clerk Paid Herself \$2,683 In Expense Allowance When Funds Were Not Paid For Other Statutory Obligations
- The County Clerk Should Request Training Incentive From Fiscal Court
- The County Clerk Did Not Reimburse The Fiscal Court For Employee Withholdings
- The County Clerk Inappropriately Issued W-2's To Employees
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Was Delinquent In Submitting Quarterly Financial Reports To The Governor's Office For Local Development By Up To Eight Months
- The County Clerk's Office Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Pennington, Elliott County Judge/Executive
Honorable Reeda S. Ison, Elliott County Clerk
Members of the Elliott County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Elliott County Clerk for the year ended December 31, 2005, and have issued our report thereon dated August 7, 2006. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Elliott County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Elliott County Clerk's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- County Clerk Reeda Ison Has A Deficit Of \$12,515 In Her 2005 Fee Account
- County Clerk Reeda Ison Has A Cumulative Deficit Of \$28,629 Owed To Taxing Districts For 2001, 2002, And 2004
- The County Clerk Had \$10,292 Of Checks Payable To Taxing Districts Returned From Bank Due To Insufficient Funds In Her 2005 Bank Account
- The County Clerk Had \$3,797 In Disallowed Expenditures
- The County Clerk Paid Herself \$3,194 Of Training Incentive, But Should Request It From Fiscal Court
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Was Delinquent In Submitting Quarterly Financial Reports To The Governor's Office For Local Development By Up To Four Months

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 7, 2006

